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Budgetary and Finance Committee

ADOPTION OF THE REPORT OF THE BUDGETARY AND FINANCE COMMITTEE TO THE GOVERNING COUNCIL

Draft report of the Budgetary and Finance Committee

Rapporteur: Ms. Anna-Karin HOLM-ERICSON (Sweden)

CHAPTER III. Financial, budgetary and administrative matters

A. Annual review of the financial situation, 1992

1. For its consideration of item 3 (a), the Budgetary and Finance Committee had before it the report of the Administrator contained in documents DP/1993/44, DP/1993/44/Add.1, DP/1993/44/Add.2 (English only) and DP/1993/44/Add.3 (English only).

2. The Associate Administrator introduced the item, noting that the report provided the following information: a comprehensive review of the financial activities of UNDP during 1992; forecasts for 1993 and 1994; coverage of supplementary activities; a report on trust funds established by the Administrator during 1992; and a report on the status of all trust funds established by the Administrator since 1981.

3. He noted that while total expenditures had exceeded $1 billion in 1992, expenditures had decreased for the first time in eight years. He explained that the increase in contributions during 1992 reflected an extremely high payment rate by Member States, for which the Administrator was thankful, and also that 1992 voluntary contributions totalling $1,182 million included $105 million paid by several Governments for 1991 pledges. These factors had resulted in an increase in the balance of general resources held by UNDP. He stressed that based on current projections, the excess of expenditure over income could not be

sustained and that the balance of general resources could only decrease in the foreseeable future.

4. In presenting forecasts for 1993 and 1994, he indicated that contributions were expected to decline by $143 million, or 13.5 per cent from 1992 levels or $230 million less than the 1993 target assumed in decision 90/34 on the fifth programming cycle. In the light of present forecasts, the Administrator had reduced the expenditure planning framework to 75 per cent of established indicative planning figures (IPFs) in the interests of prudent financial management.

5. The Associate Administrator noted the increase in supplementary activities and in particular that of cost-sharing, which amounted to 22 per cent of total programme expenditure in 1992. He noted the Administrator's suggestion to discontinue annual reporting on the Special Measures Fund for the Least Developed Countries (SMF/LDC); the request for additional support costs from the United Nations Educational, Scientific and Cultural Organization (UNESCO) and the fact that the World Meteorological Organization (WMO) had not provided a request to consider its request for additional support costs, which had been deferred by the Governing Council in 1992.

Summary of the discussion of the Committee

6. Several members of the Committee agreed that the reduction in planned expenditure targets was currently particularly appropriate in view of the reduction in the level of resource anticipated. Other members expressed their concern regarding the impact of such action on country programmes and the possibility that existing programmes would be terminated. One member referred to a previous proposal calling for predictable resource flows to UNDP. Unfortunately, these had not materialized. Several delegates expressed concern over the low level of resources.

7. Several members raised questions regarding the low investment yield in 1992 and, expressing concern regarding the need to minimize losses due to fluctuations in exchange rates and recalling previous audit comments on the investment periods of the portfolio, requested information on the present structure of the UNDP investment portfolio and additional information on its investment policy.

8. Most members agreed to the additional support costs requested by UNESCO. One member indicated that it would not be possible to review the WMO request without additional information. Most members also agreed to discontinue annual reporting on the SMF/LDC until a final report was provided upon the closure of the Fund. One member, noting that the Reserve for Field Accommodation had disbursed more than the $25 million authorized, indicated that the Administrator should exercise greater caution.

Response of the Administration

9. The Associate Administrator responded to the questions on programme issues. He pointed out that it should be possible in most cases to absorb the reduction in IPF entitlements without having to resort to reductions in budgets that had already been approved, since at that stage in the programming cycle, total

approvals for UNDP as a whole had reached only 68 per cent of the revised entitlements. There were a few programmes, however, where approved budgets already exceeded 75 per cent of the IPFs, and it would be necessary in those cases either to extend the duration of some projects into the sixth programming cycle or reduce some budgets, as appropriate, to bring the total commitments in line with available resources.

10. The Director of Finance noted the comments on the expenditure that had exceeded the agreed level for the Reserve for Field Accommodation and said that the level would be monitored closely. In the case in question, the decision to exceed the limit had been taken in order not to delay construction and in the best interests of UNDP and its Joint Consultative Group on Policy (JCGP) partners, who were committed to the joint premises. Collection of the amounts due from the partners would proceed as fast as possible.

11. The reductions in 1992 of support costs paid to executing agencies were in line with mandated levels of reimbursement and reflected the actual pattern of expenditures by the different agencies and the proportion of total expenditures under national execution.

12. The Director of Finance agreed with the views of delegations on the need for continued prudent financial management and pointed out that the estimates of balances of general resources were only for the year end and that during the course of any year balances could fluctuate considerably. That reflected the very different patterns of cash outflows, which tended to be regular, and cash inflows, which were less predictable and tended to be skewed towards the second half of the year. Thus, year-end cash balances could be reduced substantially in the first half of any year before any substantial amounts of voluntary contributions were received from donors. The balance of general resources forecast for end-1994 was, therefore, a best estimate of a minimum acceptable level for operational requirements. In the light of the unpredictable cash flow fluctuations and the changing levels of available cash, the task of investment management was not an easy one. The activity was undertaken by a team of professionals under the direction of the Treasurer, who would provide further details.

13. The Deputy Director, Division of Finance, and Treasurer provided an overview of the UNDP investment policy and reviewed conditions existing in 1992 which had led to the results reported in 1992. Included in those were interest rates significantly lower than those prevailing in the past and substantial devaluation in the value of seven major donor currencies, which had offset higher interest rates available in those countries. He reported on the structure of the UNDP portfolio with respect to both the currency holdings and investment periods. He stated that it was highly unlikely, in view of the level of funds currently held by UNDP, prevailing interest rates and the anticipated further strengthening of the dollar, that UNDP investment earning could compensate for the reductions in pledges that had occurred.

Recommendation of the Committee

14. Following its consideration of the subject, the Budgetary and Finance Committee recommended that the Governing Council adopt the following draft decision:

The Governing Council

1. Takes note of the report of the Administrator on the annual review of the financial situation (DP/1993/44, and Add.1-3) and the observations and comments made thereon;

2. Notes with deep concern the level of resources expected to be available in 1993 and 1994;

3. Urges all Governments to increase their contributions to the United Nations Development Programme in line with the planning assumptions in paragraphs 2 and 3 of its decision 90/34 on the fifth cycle (1992 to 1996);

4. Takes note of the Administrator's efforts to develop appropriate plans and strategies for expenditure reductions necessitated by the reduced resource flows and requests the Administrator to continue to monitor the situation carefully in order to ensure the continued financial viability and to protect the integrity of the Programme;

5. Approves the retroactive request of the United Nations Educational, Scientific and Cultural Organization for additional support costs arising from the significant appreciation of the French franc relative to the United States dollar over the period 1989 and 1990;

6. Notes the intention of the Administrator to discontinue annual reporting on the Special Measures Fund for the Least Developed Countries and to provide a final report upon the closure of the Fund.